



ERIG

INDEX

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HOW IS A FUND  
GRADED?

THE BENCHMARK FOR  
RESPONSIBLE INVESTMENT

[WWW.ERIGINDEX.COM.AU](http://WWW.ERIGINDEX.COM.AU)

## ERIG INDEX & THE RESPONSIBLE INVESTMENT SPECTRUM

The ERIG Index has been developed to accurately and systematically rate funds on their Responsible Investment (RI) capabilities. We draw on the Responsible Investment Association of Australasia's (RIAA) Responsible Investment Spectrum as the foundation for this work. This provides a strong, well considered and accepted framework for our gradings, while ensuring value judgements are minimised.

The Spectrum consists of seven categories, which are listed below:

**ESG Integration** – The inclusion of ESG risks and opportunities in the investment decision-making process.

**Negative screening** – Excluding certain companies, sectors, issuers or countries based on activities that are deemed

based on activities that are deemed unacceptable in terms of downside risk or values misalignment.

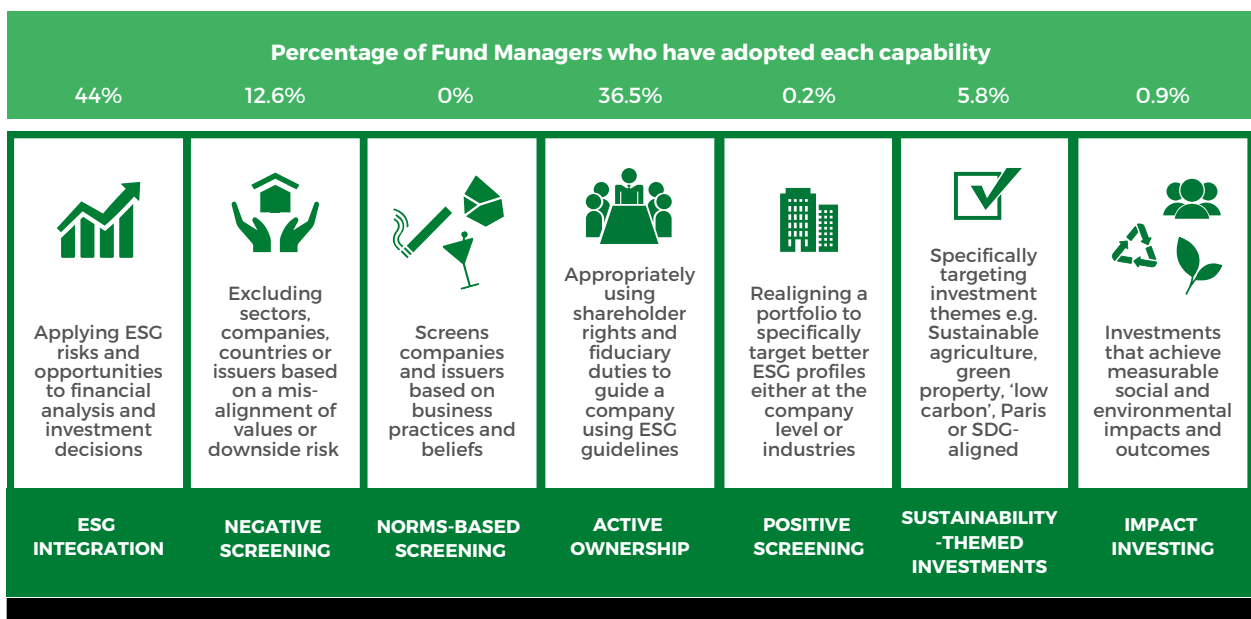
**Norms-based screening** – Screening of companies and issuers that do not meet minimum standards of business practice based on international norms.

**Active Ownership** – Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours.

**Positive Screening** – Intentionally tilting the portfolio towards solutions or targeting companies or industries with better ESG profiles.

**Sustainability-themed Investing** – Specifically targeting investment themes e.g. sustainable agriculture, low carbon or SDG-aligned investments.

**Impact Investing** – Investing to achieve positive social and/or environmental impacts.



## THE GRADING PROCESS

Fund managers are asked to complete a questionnaire, which we have compiled using information and questions from both the UNPRI and RIAA.

The questionnaire contains several hundred questions, so we can get a detailed understanding of the fund's RI capabilities. It considers two main components per capability:

- The high-level beliefs of the manager about each RI capability that they offer (Intent)
- Evaluation of each RI capability that they offer, with questions designed to

establish their depth and breadth, strengths, and weaknesses (Action)

The questions are designed to be closed-ended, that is in the form of Yes/No answers to ensure the evaluation across managers is systematic, transparent and that qualitative, or value, judgments are kept to a minimum. We audit each response for completeness and correctness.

### The ERIC Index Questionnaire

The questionnaire is made up of the following components:

Instructions Tab	Identity Tab	RI Capabilities	RI Scorecard
Allows manager to select applicable RI capabilities. This opens up applicable sections of the questionnaire.	The manager answers questions based on their beliefs (Intentions).	Related to each RI capability. Manager demonstrates their actions through questions about their process.	Summary table showing capability scores across identity and actions.

Below is an example of an RI Scorecard that is produced from the questionnaire.

### FUND MANAGER SCORECARD

1. The first column references the tabs in the workbook relating to the RI Spectrum.
2. The first points column are the points a manager has scored for the relevant RI capability.
3. The second column is the maximum potential points a manager can score for that RI capability.

Scorecard Element	Score	Maximum Score
<b>Firm Responsible Investments Identity</b>		
Member Status	20	20
Firm Beliefs about Responsible Investing	6	6
<b>Responsible and Ethical Investment Categorisation (RIAA Spectrum)</b>		
ESG Integration	11	15
Negative Screening	3	5
Norms-based screening	2	3
Active Ownership	4	5
Positive/Best-in-class screening	3	3
Thematic Investing	3	3
Impact Investing	3	3
<b>ESG Integration Process</b>		
ESG Investing Practices	12	18
ESG Integration within Research Stage	5	9
ESG Integration within Security Selection	4	5
ESG Integration at the Portfolio level	5	13

<b>Negative Screening Process</b>		
Negative Screening Flexibility	4	4
Negative Screening Evaluation Components	3	3
Negative Screening Criteria	13	18
Negative Screening Examples	2	6
<b>Norms-Based Screening Process</b>		
Norms-Based Screening Criteria	2	2
Norms-based Screening Examples	2	2
<b>Active Ownership</b>		
Active Ownership/Stewardship Policy	3	6
Engagement Policy	12	16
Voting Policy	3	4
<b>Positive Screening Process</b>		
Positive Screening Identification	4	4
Portfolio Construction Approaches	0	0
<b>Thematic Investments</b>		
Thematic Investments Identification	5	6
Thematic Investments Selection	11	11
<b>Thematic Investments</b>		
Thematic Investments Identification	5	6
Thematic Investments Selection	11	11

### FUND MANAGER SCORECARD SUMMARY - EXAMPLE

Intent	11	3	2	4	3	3	3
Action	26	22	4	18	4	16	16
Manager Score	37	25	6	22	7	19	19
Max points	60	36	7	41	10	23	23
Manager Rating	6.17	6.94	8.57	5.37	7.00	8.26	8.26
	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investing	Impact Investing

(Total manager points per capability / max points per capability) x 10 = score

The final grading across each of the RI capabilities is on a scale of 1 to 10.

understand the RI strengths and weaknesses of any fund at a glance.

The result is a transparent scoring system that provides consistency across funds and asset classes, as well as allowing advisers and investors to

It is important to also note that funds are only comparable within sectors. For example, Australian equity funds should only be compared with other Australian equity funds.

### THE ERIG INDEX RANGE

0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.00	1.00	1.00	1.00	1.00	1.00	1.00
2.00	2.00	2.00	2.00	2.00	2.00	2.00
3.00	3.00	3.00	3.00	3.00	3.00	3.00
4.00	4.00	4.00	4.00	4.00	4.00	4.00
5.00	5.00	5.00	5.00	5.00	5.00	5.00
6.00	6.00	6.00	6.00	6.00	6.00	6.00
7.00	7.00	7.00	7.00	7.00	7.00	7.00
8.00	8.00	8.00	8.00	8.00	8.00	8.00
9.00	9.00	9.00	9.00	9.00	9.00	9.00
10.00	10.00	10.00	10.00	10.00	10.00	10.00
ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investing	Impact Investing

### COMPARING MANAGERS' ERIG RESULTS

Manager A	2 <sup>ND</sup> QUANTILE	5.71	8.54	8.89	6.13	5.71		
Manager B	2 <sup>ND</sup> QUANTILE	7.42	5.37		9.35	8.57	6.50	
Manager C	1 <sup>ST</sup> QUANTILE	6.17	6.94	8.57	7.10	10.00	9.50	10.00
	Quartile Ranking	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investing	Impact Investing

The blank spaces indicate a manager does not possess that RI capability.

## THE QUARTILE RANKING

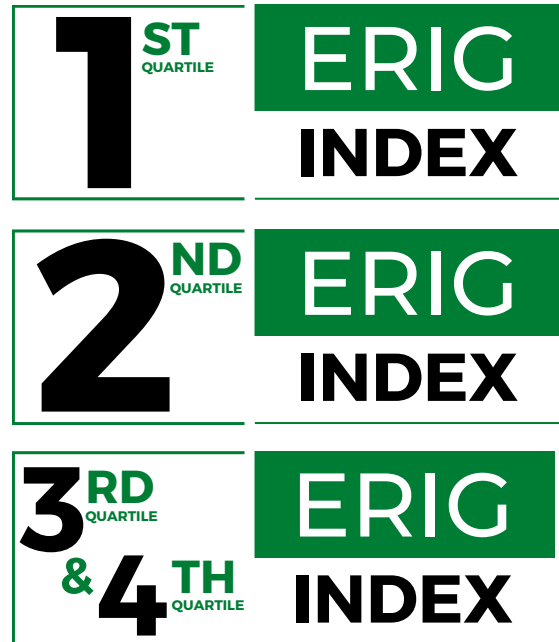
Funds are also grouped into quartiles within their relevant sector. This Quartile Ranking reflects a simplified representation of their RI capabilities.

These rankings can be used in marketing material and as a 'shorthand' to describe a fund.

Nonetheless, we recommend financial advisers review the full underlying RI Spectrum scores when assessing funds and building RI portfolios, in order to ensure alignment of values and beliefs.

All Quartile Rankings and Responsible Investment Spectrum scores are available through the ERIG Index Online Portal, which can be found at [www.erigindex.com.au](http://www.erigindex.com.au)

The site also includes a filtering tool, portfolio construction tool and RI related articles and education pieces.



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